

STATEMENT OF

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ON BEHALF OF

THE BRETTON WOODS COMMITTEE

ON

**DEBT AND DEVELOPMENT: HOW TO PROVIDE EFFICIENT, EFFECTIVE
ASSISTANCE TO THE WORLD'S POOREST COUNTRIES?**

BEFORE

**THE DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE
AND TECHNOLOGY SUBCOMMITTEE OF
THE HOUSE COMMITTEE ON FINANCIAL SERVICES**

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INTRODUCTION

Madam Chairman, Ranking Member Maloney, and members of the Subcommittee, it is an honor and pleasure to appear before the Subcommittee today. My name is Tim McNamar.¹ I am a Senior Advisor to PricewaterhouseCoopers on advanced information technology for accounting. In earlier days, I served in the Reagan administration as Deputy Secretary of Treasury. Since then, I founded two Internet startups and served in senior management positions in a number of leading U.S. financial institutions.

I am here today as a witness for The Bretton Woods Committee of which I am a founding member.² The Bretton Woods Committee is a bipartisan, public education organization dedicated to increasing understanding of the benefits to the United States of global economic growth, development, and liberalized trade. The group reminds the public and their elected officials about the key role played by the multilateral institutions in helping meet these goals. This includes the World Bank, the International Monetary Fund, and the World Trade Organization, along with the regional development institutions. The Committee also participates in the policy development process by

¹ In compliance with Congressional rules, a brief biographical statement appears at the end of this statement.

² The views I offer today are my individual views and are not necessarily reflective of views held by other members of the Bretton Woods Committee. They also do not represent views of PricewaterhouseCoopers LLP.

reviewing current issues and sharing its conclusions with the public, government officials, and leaders of the multilateral institutions.

The Bretton Woods Committee is comprised of about 700 members from across the country. Typically, they are opinion leaders: heads of businesses, universities, labor groups and NGOs along with former government officials. We are proud of the fact that all the former secretaries of Treasury and State are members, as are a good number of former members of Congress. Our co-chairmen are former Congressman Bill Frenzel and Gerald Corrigan, the one-time president of the New York Federal Reserve. Jim Orr, who as some members of the Subcommittee will remember, served as the international counsel to the Financial Services Committee in the late 1970s and early 80s, provides day to day leadership of the Committee.³

I am delighted to discuss with you some thoughts on how to increase the effectiveness of development assistance to the world's poorest countries. My testimony will cover some of my own perspectives and those of The Bretton Woods Committee on improving the quality and quantity of development assistance over the immediate, medium, and long-term. I will begin urging continuing support for assistance efforts offered through the International Development Association (IDA) and the regional development banks, and will then share ideas on some creative initiatives I believe could make development resources go further.

³ Truths in Testimony rules require a statement about the receipt of any federal grants or contracts. As a matter of policy, The Bretton Woods Committee accepts no government support of any kind. Nor does it accept funding from the any multilateral financial institution. It is supported solely by voluntary contributions from its members along with occasional foundation grants.

IMMEDIATE ACTION: IDA REPLENISHMENT

While the subject of today's hearing does not specifically deal with the World Bank's assistance program aimed at the poorest countries – the International Development Association, or IDA – replenishment legislation for this important program will soon come before you. No development program has proven more effective in helping the world's poorest countries emerge from absolute poverty. IDA has enjoyed a tradition of bipartisan support from every U.S. administration and Congress since the Eisenhower era. It is an interesting historical fact that a member of Congress first suggested the creation of IDA, and American support and ideas have helped the agency evolve and become more effective over the years. Today, the United States remains a linchpin to IDA's success, leading the way in institutional modernization and increasing IDA's effectiveness in eradicating poverty throughout the developing world.

IDA policy reflects U.S. values in many ways. IDA and the World Bank share the U.S. belief in the importance of open economies and free market discipline for promoting growth and stability. The World Bank pioneered the push for the “democratization” of aid decision-making, insisting that borrowing countries reach a broad domestic consensus on development priorities and strategies. The World Bank also promotes transparency, demands accountability, and helps recipients fight corruption. IDA has also embraced the U.S. initiative to shift toward “results-oriented” development strategies.

IDA reflects the United States' strong humanitarian values and demonstrates a serious commitment to social development. Sound economic and political institutions cannot work unless people are healthy and educated enough to take advantage of them. IDA's commitment to fight hunger and malnutrition and to encourage the poorest nations to invest in their own people's health and education reflects the United States' commitment to human dignity and self-sufficiency.

IDA has helped advance U.S. security interests. IDA projects address the scourge of poverty – the number one cause of unrest in the world – and other global security threats, including migration and the spread of HIV/AIDS. Massive migration due to conflicts, for instance, create major social and economic dislocations. IDA makes it possible for people to confront problems within their own borders without fleeing to other countries to escape their desperate situations. Similarly, through support for a systematic attack on HIV/AIDS in countries that lack the basic resources to fight the pandemic on their own, IDA helps slow the spread of the disease from one country to the next.

In an indirect way, IDA lending has also advanced U.S. trade and economic policy goals. IDA's main focus is to increase productivity by improving access to basic education, training, health care, clean drinking water, and other basic necessities. This helps promote economic stability in the short run and ultimately helps countries grow to the point that they can become active participants in the world economy and valued trading partners.

IDA's work in developing countries has created new markets for some U.S. goods like food grains, capital equipment, and technology. IDA requires that foreign suppliers to projects it finances be chosen by international competitive bidding. This fair bidding structure has helped U.S. firms sell equipment to World Bank and IDA-financed projects. Over the years, such sales have nearly matched total direct U.S. contributions made to the World Bank and IDA.

It is our belief that enactment of the IDA replenishment legislation, along with similar replenishments for the African and Asian Development Banks, will allow these institutions to continue channeling vital assistance and enable the United States to keep faith with its commitments and obligations as the world's leading economy.

CREATIVE WAYS TO MAXIMIZE DEVELOPMENT RESOURCES

More resources are needed to help bring countries out of poverty. The world's leaders recognized this five years ago when they met and agree to make a dramatic increase in development resources by the year 2015. Yet, these Millennium Development Goals remain well beyond our current reach. Government officials and leaders of development institutions are actively searching for new resources or new mechanisms to bridge the gap. This will be a central focus of the G-8 economic summit in Scotland in a few weeks.

I believe the timing is right to explore innovative means of maximizing both the resources available to developing countries as well as the delivery of sustainable changes. There is considerable worldwide support for expanded debt relief for a limited number of world's poorest countries who lack the ability to repay past loans. The U.S. Congress has been a stalwart in providing funds in the past for debt relief. Of course, debt relief must be done carefully to ensure that long lasting gains are made. And funding for debt relief should not come at the expense of IDA's resources. We must bear in mind that IDA and other programs for the poor rely on repayments of past loans to supplement annual donor contributed funds. This means that to maintain current levels of support donor countries either to increase their financial commitment to IDA or to pursue new and creative mechanisms that will maximize available resources. Several donor countries have expressed hesitation at the idea of increasing their commitment, which provides further impetus for "thinking outside the box."

The Bretton Woods Committee recently shared a set of recommendations with the new president of the World Bank. A number of these suggestions would have the effect of stretching resources further. I will outline a few of the most relevant. The full list of recommendations is appended to this statement, along with a proposal of my own to use oil-backed bonds for development.

Employing Modern Financing Techniques

The World Bank is well behind the curve of financial innovation. Instead, it should be on the forefront, leveraging its financial position and that of its donors to

maximize development assistance flows. It should be much more open to the adoption of modern financial market techniques that could permit expansion of its resource base and the creation of new products to spur new investment in development.

The Bank can do this with minimal risk. Among the ideas it should consider are: expanded use of guarantee instruments; the creation of special purpose financing subsidiaries, perhaps backed by callable capital; securitization of some Bank or IDA loans, perhaps with Bank provided credit enhancements; and other mechanisms to “leverage” the Bank’s balance sheet for development.

Modernizing the Bank’s Investment Portfolio

The Bank should consider diversifying its portfolio to raise current and longer-term yields, and should consider contracting out portions of the portfolio to established money managers on a global basis. The Bank should invite proposals as to how it should invest its capital and pick the best balance among the proposals. An easily achieved 1 percent improvement in the Bank’s yield on its \$35 billion portfolio would mean a \$350 million annual increase in Bank profits – a sum greater than all the profits derived from the IBRD’s market-based lending. Increased Bank profits can be used to help finance the important shift to grant assistance and other new initiatives.

Increasing Performance-Based Assistance

The World Bank and other multilateral development banks should provide a greater proportion of their assistance to the good performing countries. However, IDA and other soft loan windows should continue to provide poverty reduction assistance to

all poor countries, even the poor performers. Where governments lack the capacity or are themselves the obstacle, the soft loan lenders should work through non-governmental organizations (NGOs) or businesses.

Graduating Middle-Income Borrowers

The Bank has not been sufficiently rigorous in enforcing its graduation policy for countries that can access the private capital markets. In one sense it is tying up capital that could be better used for higher priority development needs, e.g. Africa. However, the Bank relies on the income from these loans to cover approximately one-half of its annual operating budget. More creative thinking should be given to levels or forms of graduation, phase outs, and knowledge management for fees that the Bank can perform that would be substitute income from the most credit worthy borrowers. There may be a variety of securitizations, bank credit enhanced refinancing, etc. that will move the bank toward more rigorous enforcement of its graduation policy while preserving some of the Bank's income from this group of borrowers.

Enhancing Donor Coordination

More effective donor coordination is critical to avoid duplicative efforts and waste. This must be accorded a higher priority. The World Bank must also continue to measure its skills against other institutions, especially the regional development banks. It should develop metrics to test its lending efficiency, project implementation, staff size, etc., against the regional institutions.

REFOCUSING WORLD BANK PRIORITIES

Creative resource management should be accompanied by a thoughtful review of Bank priorities, focus, and delivery. I will review some policy areas key to sustainability and growth to which the Bretton Woods Committee has the new World Bank management to pay particular attention.

Decisive Help for the Private Sector

It is imperative that the Bank offer decisive help to develop the private sector in developing countries. No country has ever broken out of the ranks of the “poorest” to achieve the status of an “emerging market” without first creating a well functioning private sector able to permit capital formation and the building of local businesses, which employ workers and pay taxes to support other governmental services. Aid to the private sector, as the Bank’s Operations Evaluation Department recently suggested, is the best way of reducing poverty.

To this end, the Bank should focus on two things. First, it is crucial to increase the skill set of the Bank’s in-country staff relating to the private sector, through training, business internships, and other innovative programs. The Bank should also encourage developing countries to actively promote foreign direct and portfolio investment.

The International Finance Corporation (IFC), which is the Bank’s main instrument to help the private sector, should do two things. One is to provide aid directly to private sector companies in the developing world. The other is to work closely with private companies in other countries that wish to make investments in the developing world. The IFC will need increased capital to address these issues. The Bank should,

therefore, consider the transfer of some of its capital to the IFC, as it has done in the past. The Foreign Investment Advisory Service (FIAS) and the Multilateral Investment Guarantee Agency (MIGA) should also be expanded.

Lending to Sub-Sovereigns

As a further step to strengthen the Bank's private sector role, the Bank's articles should be changed if necessary to allow greater lending flexibility. For example, both the World Bank and IDA should be able to lend directly to sub-sovereign entities. Since the London-based EBRD, which lends directly to the private sector, enjoys an AAA rating, changing the Bank's articles to permit a broader range of lending should not undermine its own AAA credit rating.

Using New Thinking and New Modalities

The Bank needs to redouble efforts to deliver basic infrastructure to borrowers, particularly to disadvantaged areas, where private sector finance will not be available. This means radically more efficient and effective ways must be found to secure infrastructure development and to increase the role for private investment where possible. Similarly, creative new ways must be found to assist the humanitarian, housing, health, and education needs of the world's poorest people. In some instances, this will require bypassing public authorities and greatly expanding direct work with NGOs with proven effectiveness.

The shockingly low disbursement of funds targeting AIDS in recipient countries provides a poignant example of this dire need. In 2004, only 40% of the funds committed

to fight AIDS were disbursed due to inadequate human and other infrastructure in the recipient countries.

Stepping Up the Fight Against Corruption

Anti-corruption must be at the vanguard of all multilateral development efforts, and much more remains to be done. The Bank should maintain pressure on governments to confront corruption within their borders. Its agencies should provide increased funding and technical assistance to support anti-corruption efforts and to help empower an active civil society that can help reinforce this.

DEBT RELIEF

The Bretton Woods Committee was an early and steady advocate of carefully structured debt relief. At critical junctures, we played a behind the scenes role in helping persuade other government representatives that multilateral debt relief could work.

More must be done to end the vicious lend-and forgive cycle. Several creative solutions have been proffered, however it is apparent, even at this stage that building an international consensus will be the biggest impediment to moving beyond initial discussions.

U.S. Treasury Department's Plan

Secretary Snow's proposed 100% debt relief for the Heavily Indebted Poor Countries (HIPC)s). All repayment obligations would be removed and new assistance flows would be reduced by the amount that is forgiven. Importantly, net transfers would not decline for any country undergoing debt forgiveness. Maintaining constant net flows across countries ensures that no country receives more favorable treatment than others because of debt relief and that no country benefits from having excessively borrowed in the past.

Counseling Caution

We advise caution against the adoption of dramatic changes that could impair the World Bank Group's ability in the future to provide the highest level of service to its client countries. It is important to ensure that any solution maximizes the effectiveness of the savings from repayments forgiven.

Grants and loans extended through IDA or IBRD are accompanied by assistance from Bank experts in program selection and implementation according to the country assistance strategy as determined by the client country and Bank staff. The process ensures that resources are channeled to meet each country's individual development objectives, assistance is provided where needed, and transparency measures ensure that assistance safely reaches its destination, unimpeded by officials seeking to divert funds for other purposes.

Relieved repayments would not be subject to this kind of arrangement. Recipient countries would freely determine their use, which could prove problematic in countries struggling to establish a culture of institutional integrity. Economic problems in the poorest countries are largely rooted in domestic issues such as governance, corruption, lack of policy coherence, corporate and public governance, and internal political strife.

The Committee therefore urges policymakers to require that any new substantial debt relief be accompanied by ample assurances that the money is used wisely and solely to further the country's development agenda. All of want to help ensure that debt forgiveness has long lasting benefits for the recipients, and we owe it to taxpayers providing the resources to ensure strict oversight.

The international community is entertaining several other proposals that offer varying degrees of feasibility and deserve mention. These ideas will be discussed further at the upcoming G-8 summit in Gleneagle.

The International Finance Facility

The British proposed International Finance Facility (IFF) would constitute a financing mechanism that could provide an additional \$50 billion in development assistance in the years up to 2015. The IFF would leverage long-term donor commitments made to produce additional money now from the international capital markets. Bondholders would be repaid using future donor payment streams.

For the United States, the IFF is a non-starter for several reasons. By pledging future steady aid streams, it would effectively require one Congress to limit the actions of future Congresses, which presents problems. It also seems unlikely that Congress would be willing to vote any sizable increases in international development resources, given the current tight budget situation and the limited constituency for such increases. Finally, there is concern about borrowing countries' capacity to use additional aid effectively. Too much money chasing too few good opportunities could undermine public support for development assistance within donor countries.

Selling off the IMF's gold reserves for debt relief

Gordon Brown has also thrown Britain's lobbying efforts behind the idea of selling a share of the IMF's gold reserves in order to fund debt relief. The IMF holds 103.4 million ounces of gold at a book value of \$9 billion and a market value of \$45 billion. The selling of 16 million ounces of IMF gold would raise an estimated \$7 billion for the debt relief cause. Proponents say that this amount would not only cover the short term goal of 100% debt cancellation for approved countries, but would also insure these countries for 10 years against unforeseen fiscal risks and would help the IMF with plans to issue grants rather than loans to some of its poorest members.

Those opposed to IMF gold sales say doing so could flood the market, drastically lowering gold prices, causing a market shake up that could be damaging to many countries around the world including some of the most severely indebted countries in Africa that depend on gold as a primary export. The United States, France and Germany

have ruled out the IMF gold sales plan, and Canada strongly opposes it. Japan has expressed concern that complete debt write-off could provide too much relief, however did support the IMF gold sales plan.

Global Taxes

A Franco-German proposal to raise revenue through the introduction of global tax instruments has also been making the rounds. Global tax proponents point to the idea of an international airline fuel tax, which, if levied globally at a rate of \$0.20 per gallon, could raise about \$9 billion annually. A global tax on arms sales could also raise significant sums.

Reactions vary to proposed global tax mechanisms to help finance development. The U.S. administration has expressed concern that the global tax could be destabilizing to world markets and does not support the proposal. If it is to move beyond the idea phase, the first hurdle will be to win more support for the idea. Given the difficulty of raising taxes here in the United States, even for programs highly valued by constituents, it would seem a difficult task to muster the necessary political support.

CONCLUSION

In conclusion I would like to reiterate that while the challenges to development are great, so are the opportunities. We urge the Congress to provide support for the authorization measures and appropriations for IDA, the African Development Bank and

the Asian Development Bank. Members of The Bretton Woods Committee stand ready to lend support to you in this. Thank you for your attention.

Attachments:

- Biographical Statement of R. T. McNamar
- Bretton Woods Committee Recommendations to New World Bank Management
- “Oil for Development” Proposal
- Signed “Truth in Testimony” Disclosure Form